



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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To: Board of Directors
Federal Crop Insurance Corporation

December 12, 2001

FROM: Phyllis W. Honor /s/ *Phyllis W. Honor*
Acting Manager

SUBJECT: Board Memorandum No. 637
Docket No. CI-NUTRIENT-BMP-01-2
Pilot Nutrient Management/Best Management Practice Insurance Endorsement
Resubmitted by AgFlex and the Agricultural Conservation Innovation Center, American
Farmland Trust for the 2002 Crop Year

There is submitted for your consideration the subject docket authorizing or not authorizing the pilot Nutrient Management/Best Management Practice Insurance Endorsement (Nutrient/BMP) beginning with the 2002 crop year as resubmitted by AgFlex and the Agricultural Conservation Innovation Center (ACIC), with reinsurance, risk subsidy, and administrative and operating subsidy.

Section 508(h) of the Federal Crop Insurance Act requires the Federal Crop Insurance Corporation (FCIC) to provide reinsurance if the policy is actuarially sound and the interests of producers are adequately protected. At its September 17, 2001, Board of Directors (Board) meeting, the Board suspended action on this product to allow ACIC and Risk Management Agency (RMA) staff an opportunity to discuss and resolve issues with the program prior to Board consideration for approval or disapproval of the product at its November 15, 2001, Board meeting. Because the Nutrient/BMP resubmission was not received by RMA until November 8, 2001, leaving no time for the Board or RMA to adequately review the resubmission prior to the November 15, 2001, Board meeting, the Board suspended action on the product until its December 2001 Board meeting.

It is necessary for the Board of Directors to select one of the following options to either approve, approve with revisions, disapprove, or extend the time, based on an evaluation of all experts and other reviews, Docket No. CI-NUTRIENT-BMP-01-2.

RESOLVED, That Docket No. CI-NUTRIENT-BMP-01-2, Exhibit No. 2080, authorizing implementation of the pilot Nutrient Management/Best Management Practice Insurance Endorsement with reinsurance, risk subsidy, and administrative and operating subsidy beginning in 2002 in the states of Delaware, Iowa, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Minnesota, Nebraska, Ohio, Pennsylvania, South Dakota, Virginia, and Wisconsin as authorized under section 508(h) of the Federal Crop Insurance Act, is hereby approved AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as

are necessary to make the policy legally sufficient and to resolve those problems with the policy terms identified by the reviewers.

OR

RESOLVED, That Docket No. CI-NUTRIENT-BMP-01-2, Exhibit No. 2080, authorizing implementation of the pilot Nutrient Management/Best Management Practice Insurance Endorsement with reinsurance, risk subsidy, and administrative and operating subsidy beginning in 2003 in the states of _____ as authorized under section 508(h) of the Federal Crop Insurance Act, is hereby approved AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as are necessary to make the policy legally sufficient and to resolve those problems with policy terms identified by the reviewers.

OR

RESOLVED, That the submitting entity shall be notified of the Board's intent to disapprove Docket No. CI-NUTRIENT-BMP-01-2, Exhibit No. 2080, on the basis that the Board has been unable to make a determination that the interests of producers are adequately protected and that the policy is actuarially sound for the reasons set forth in the expert, Risk Management Agency, and Office of the General Counsel reviews, and the concerns raised by the Board in the Executive Session.

OR

RESOLVED, That the submitting entity and the Board hereby mutually agree to an extension of time for further expert review of the resubmission. The Board will proceed as soon as possible to contract for expert review of the resubmission and upon receipt of those reviews, the Board will take action on the resubmission at a future Board meeting.

"For Official Use Only" and "Secure Storage Required" Provisions Expired on: December 12, 2001

FCIC Docket No. CI-NUTRIENT-BMP-01-2

Pilot Nutrient Management/Best
Management Practice Insurance
Endorsement

Voted on by the Board of Directors on: December 12, 2001

Pilot Nutrient Management/Best Management Practice Insurance Endorsement
Docket No. CI-NUTRIENT-BMP-01-2

SUMMARY

If approved by the Board, this docket will authorize implementation of the pilot Nutrient Management/Best Management Practice Insurance Endorsement with reinsurance, risk subsidy, and administrative and operating subsidy as authorized under section 508(h) of the Federal Crop Insurance Act (Act).

FOR FURTHER INFORMATION CONTACT:
Diana Moslak, (202) 720-2832

Pilot Nutrient Management/Best Management Practice Insurance Endorsement
Authorization for Approval or Disapproval
Docket No. CI-NUTRIENT-BMP-01-2

A - INTRODUCTION

I. Purpose

If approved by the Board, this docket will authorize implementation of the pilot Nutrient Management/Best Management Practice Insurance Endorsement (Nutrient/BMP) with reinsurance, risk subsidy, and administrative and operating subsidy as authorized under section 508(h) of the Federal Crop Insurance Act (Act).

II. Justification

Section 508(h) of the Act requires the Federal Crop Insurance Corporation (FCIC) to provide reinsurance to reinsured companies to provide additional insurance risk management tools to producers only if the and interests of producers are adequately protected and the program is actuarially sound.

III. Background Data – Pilot Nutrient Management/Best Management Practice Insurance Endorsement

Section 508(h) of Act allows a person to submit to the Board of Directors (Board) other crop insurance policies that if the Board finds that the interests of the producers are adequately protected and that any premiums charged to the producers are actuarially appropriate, will be approved by the Board for reinsurance and for sale by approved insurance providers to producers at actuarially appropriate rates and under appropriate terms and conditions.

Agflex and ACIC are requesting reinsurance, risk subsidy, and administrative and operating (A&O) subsidy for their pilot Nutrient/BMP insurance endorsement beginning with the 2002 crop year, in accordance with section 508(h) of the Act.

The pilot Nutrient/BMP insurance is an endorsement to the multiple peril crop insurance policy and provides insurance protection from crop production loss when a producer applies a rate of fertilizer (nitrogen, phosphorus or both, as applicable) recommended by a Best Management Practice (BMP). A certified crop consultant will recommend a BMP for the crop and production area. The insured acreage in the field is called the management unit and the producer applies the rate of fertilizer contained in the BMP. The crop consultant will lay out a check strip within the management unit on which the producer will apply the customary rate of fertilizer.

Except for the amount of fertilizer, producers must use the same farming practices on both the check strip and management unit. It is assumed that growing conditions for the management unit and the check strip are the same, and that fertilization is the only variable. Based on an appraisal, if the production per acre on the check strip is greater than adjacent strips within the management unit, less a deductible (5 percent), the producer receives an indemnity. The policy does not cover any cause of loss insured by any other policy reinsured by FCIC. The proposed BMP policy would cover corn grown for grain in 15 states: Delaware, Iowa, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Minnesota, Nebraska, Ohio, Pennsylvania, South Dakota, Virginia, and Wisconsin. If the pilot program is successful, AgFlex and ACIC intend to expand the BMP coverage to additional states and crops such as soybeans and wheat.

The BMP product was first considered by the Board on September 17, 2001. The proposal was tabled to allow ACIC to address issues raised by the five independent reviewers and the Risk Management Agency (RMA). ACIC forwarded revised policy and underwriting rules to RMA on November 6, November 7, and November 8, 2001. Because of time constraints, RMA had been unable to provide a review of ACIC's revisions before the November 15, 2001, Board meeting so the Board suspended action on the product until its December 2001 Board meeting. On November 28, ACIC and RMA met in Kansas City to review and discuss the revisions made to the pilot Nutrient/BMP through November 8. The following changes had been made to the product:

1. Revised the policy form so that it now is an endorsement to multiple peril crop insurance (MPCI) and Crop Revenue Coverage (CRC) policies and, at the same time, revised policy language to address the issue of shifting risk;
2. Provided audit guidelines for appraisals to reduce the potential of fraud;
3. Revised methods for field appraisals;
4. Removed continuous and irrigated corn practices to reduce the potential for moral hazard;
5. Deleted two of the states to further reduce the size of the pilot; and
6. Reduced the subsidy request from 59 percent to 38 percent.

B - AUTHORIZATION

I. General

Authority to approve the pilot Nutrient Management/Best Management Practice Insurance Endorsement (Nutrient/BMP) with reinsurance, risk subsidy, and administrative and operating subsidy is contained in section 508(h) of the Act (7 U.S.C. 1508(h)).

II. Program Description

The authority provided by this docket will enable FCIC to implement the pilot Nutrient/BMP product in Minnesota, Wisconsin, Nebraska, Kansas, Kentucky, South Dakota, Iowa, Illinois, Indiana, Michigan, Ohio, Pennsylvania, Delaware, Maryland, and Virginia. The pilot Nutrient/BMP endorsement seeks to provide protection for producers who agree to use a BMP plan recommended by a certified crop consultant. This plan determines the amount of nitrogen (N), phosphorus (P) or both, as applicable, the producer applies to a crop on a specific acreage. AgFlex and ACIC's research during development of the Nutrient/BMP product found that producers tend to over-fertilize crops just to be sure enough N and P are available for crops rather than using scientific methods to determine the optimal amount of these nutrients which is usually less than producers tend to apply.

AgFlex and ACIC seek to reduce the risk producers take when they use BMP application rates for N or P by providing insurance to cover the difference between yields from the producer's normal nutrient application rate and yields from land fertilized at the BMP nutrient rate. Test strips laid out by the crop consultant and paid for by the producer are fertilized with usual levels of nutrients while the majority of each field is fertilized with the BMP amount of the nutrients. At the end of the crop season, the yields of the two areas are compared and the loss due to differences between the two levels of nutrient application is determined.

III. Operating Provisions

The operating provisions for implementing this program are the pilot Nutrient/BMP endorsement, multiple peril crop insurance Coarse Grains Crop Provisions and Common Crop Insurance Policy Basic Provisions, actuarial documents, underwriting rules, loss adjustment handbook, and administrative procedures approved by the Board for RMA to administer.

IV. Administration

If approved by the Board, this program may be offered by all insurance companies reinsured by FCIC and will be carried out in accordance with the provisions of the Act. The reinsurance will be provided in accordance with the provisions of the Standard Reinsurance Agreement.

V. Effective Date

This docket will become effective upon signature by the Chairman of the Board.

VI. Classification

This program docket is for official use only.

VII. Availability of Funds

The availability of funds is discussed in the attached memorandum from the Chief Financial Officer of RMA.

VIII. For Official Use Only Designation

The "For Official Use Only" designation of this docket will terminate upon approval of this docket by the Board.

FINAL RESOLUTION

RESOLVED, That Docket No. CI-NUTRIENT-BMP-01-2, Exhibit No. 2080, authorizing implementation of the pilot Nutrient Management/Best Management Practice Insurance Endorsement with reinsurance, risk subsidy, and administrative and operating subsidy beginning in 2003 in the states of Iowa, Minnesota, Pennsylvania and Wisconsin, as authorized under section 508(h) of the Federal Crop Insurance Act, is hereby approved AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as are necessary to make the policy legally sufficient and to resolve those problems with policy terms identified by the reviewers.

Adopted by the Board of Directors on: December 12, 2001

/s/ Diana Moslak
Diana Moslak, Secretary
Federal Crop Insurance Corporation

[SEAL]

Approved by:

/s/ Keith Collins
Keith Collins
Acting Chairman of the Board

12/12/01
Date